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23 August 1964

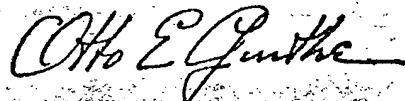
MEMORANDUM FOR: Mr. Chester Cooper

SUBJECT: U.S. Sales of Wheat to the Soviet Union

Chat:

In response to your call of last week regarding U.S. wheat sales to the Soviet Union, the boys in our Agricultural Branch have prepared the attached paper which I think will answer most of your questions, and should clarify the fact that the charge to the U.S. taxpayer occurs when the farmer delivers his wheat to the government. This is when the subsidy is paid. When wheat is delivered from U.S. stocks as a result of sales abroad there is clearly a benefit to the taxpayer. The extent of these benefits obviously depends on the amount and terms of the sale.

You may not be aware that a very thorough presentation of the economic considerations underlying this sale, as well as other advantages to the U.S., was made on the Senate floor by Senator Humphrey and is contained in the Congressional Record of 9 October 1963. I am enclosing a copy of this section of the Record and I am also attaching other Congressional discussions of this matter dealing with alternative calculations of the saving to the U.S. taxpayer so that you can better appreciate the various methods of computing these expenditures.



OTTO E. GUENE  
Assistant Director  
Research and Reports

Enclosures: (6)

1. "United States Sales of Wheat to the Soviet Union, As Related to the U.S. Taxpayer," 25 Aug 64
2. Congressional Record, 9 Oct 63 (2 papers)
3. Congressional Record, 7 Nov 63
4. Congressional Record, 15 Nov 63
5. Congressional Record, 9 Jan 64
6. Congressional Record, 20 May 64
7. Congressional Record, 18 Jun 64

OAD/KR:W Moorell, Jr.

(23 Aug 64)

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UNITED STATES SALES OF WHEAT TO THE SOVIET UNION,  
AS RELATED TO THE U.S. TAXPAYER

Two sales of United States wheat were made to the Soviet Union: one of 37.0 million bushels (1,006,433 metric tons) by the Continental Grain Company, and one of 28.6 million bushels (778,037 metric tons) by Cargill, Inc. These shipments were made in 1964, totaling 65.6 million bushels, included some overage as allowed in the contracts, and were therefore somewhat larger than the amounts shown in the original announcements. Both of these sales were commercial transactions, for cash, between the exporter and the Soviet buying agency. The exporters received prompt payment for individual cargoes upon completion of loading and the presentation of the necessary documents. Payment in full on a c.i.f. basis totaled \$140.2 million, or an average of \$72.56 per ton (\$2.14 per bushel). The Export-Import Bank had authority to guarantee commercial credit, but the Soviet buying agency did not ask for credit.

Wheat supplies for these sales, like those for other commercial transactions, came from open market stocks, from the Commodity Credit Corporation (CCC) through redemption of payment-in-kind certificates, and from CCC through direct purchases at the statutory minimum price.

Since 1938, under various government programs to support the price of certain farm products, the domestic price of U.S. wheat has tended to be higher than the world price. In order to enable U.S. wheat to compete in the world market, foreign sales must be assisted by export payments or subsidies. These export payments, which compensate the difference between the world market price and the higher supported domestic prices received by U.S. farmers, are made to the exporter in the form of payment-in-kind certificates which represent Government-owned wheat held by the Commodity Credit Corporation. These export payments compensate the exporter for the loss he would otherwise suffer by buying high and selling low. It is the U.S. farmer who actually receives the benefit, because the payment is part of the program maintaining his domestic wheat prices at levels higher than world prices. The U.S. farmer receives the subsidy when he delivers his wheat to the Government, regardless of whether the wheat is exported or not. The export payment applies to all commercial sales and therefore was applicable to the sales to the Soviet Union, the same as those to any other destination.

Export payment rates are announced daily by the U.S. Department of Agriculture for the key classes of wheat on all coasts of export. These rates vary because of changes in the difference between domestic and world market prices and also vary by port of export

because wheat-producing areas are at different distances from ports. Announcement of these export payment rates constitutes an offer by the government to pay the stated amount per bushel for any wheat sold for export during the 24-hour period between daily subsidy announcements.\*

The total subsidy, or export payment-in-kind, on the 65.6 million bushels sold to the Soviet Union amounted to about \$44 million or an average of approximately 67 cents per bushel. The export payment rates for these shipments ranged from 51 cents per bushel for white wheat, to 64-65 cents per bushel for hard winter wheat, to 72-84 cents per bushel for durum wheat.

The magnitude of the export payment rate on durum wheat raised charges in Congress and elsewhere that the American taxpayer was picking up part of the shipping costs in order to complete the sale. One of the conditions the U.S. placed on the sale of its wheat to the Soviet Union was that one-half of the wheat be hauled in U.S. vessels. In early January 1964, when the sale was made by Continental Grain Company, freight rates on U.S.-owned ships were as much

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\* The export payment rate on durum wheat is on a bid basis. The bid basis for determining export payments on durum was put into effect in the summer of 1963 to keep U.S. export prices as responsive as possible to sporadic world demand.

as \$8 to \$10 higher per metric ton than those charged by foreign ships for the U.S.-to-USSR run. The Soviet Union had refused to buy U.S. wheat at prices which included these higher shipping costs. The export payment rate of 72-73 cents per bushel authorized to Continental Grain Company for the durum wheat (about one-third of the total wheat sales) was 14-15 cents per bushel higher than the rate that the USDA had paid on other recent subsidized sales to Free World countries for this type of wheat. It was charged that this difference (which amounted to between \$5 and \$6 per ton) constituted an indirect transportation subsidy. USDA officials denied that the larger subsidy was in any way an attempt to offset shipping costs. They said they would have approved a 72-cent subsidy at the time on any transaction in durum wheat as large as the Russian sale, "regardless of the country of destination." Secretary of Commerce Hodges, however, reportedly stated at a press conference that, "it is my understanding that the price of some of the wheat was set so the seller would be able to absorb part of the shipping cost."

The sale of 65.6 million bushels of wheat contributed significantly to the increased U.S. exports of wheat under commercial terms in the trade year 1963/64; this amount constituted almost 20 percent of the record commercial exports of 340 million bushels

estimated for the period 1 July 1963 - 30 June 1964.\* The Soviet Union paid cash and did not utilize short-term credit possibilities. Carryover stocks of wheat in the U.S. on 1 July 1964 totaled 900 million bushels, 295 million below that of a year earlier and the smallest carryover since 1958. U.S. Department of Agriculture officials have estimated that a year's storage payments on the quantity of wheat sold to the Soviet Union would amount to \$8.5-\$9 million, an annual saving to the taxpayer of about one-fifth of the export subsidy. The net amount realized from the sales to the USSR, about \$115 million, has aided the U.S. balance of payments position by reducing the 1964 deficit significantly.

In the year beginning 1 July 1964, it is expected that the export subsidy payments on commercial sales of wheat to any country will be considerably less than the average of some 60 cents per bushels paid during the preceding year. The national average domestic support rate for wheat, under the new program which went into effect in July 1964, is about 50 cents per bushel less than a year ago. Largely as a consequence of lower support payments, U.S. wheat today (August 26) is selling for \$1.57 per bushel (no. 2 Kansas City hard), compared with \$2.00 per bushel a year ago.

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\* The remainder of the exports in 1963/64, about 520 million bushels, were shipped under the Food-for-Peace program, largely PL-480 sales.

Export payments will continue to be made when the market price of wheat plus the cost of export certificates raise the U.S. export prices above "world prices." It is expected, however, that the new wheat program will mean substantially reduced outlays from the U.S. Treasury for wheat export payments.

ORR/ERA  
26 August 1964